

Message Text

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ACTION NEA-10

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC IMMEDIATE 7126

C O N F I D E N T I A L CAIRO 10168

E.O. 11652: GDS

TGS: USEGJC, EFIN

SUBJECT: TAX TREATY

REF: CAIRO 9971

1. EMBASSY HAS NOW RECEIVED WRITTEN MEMO FROM U/SEC HABIB CONTAINING GOE'S VIEWS ON DRAFT TAX TREATY, AS PROMISED BY MINFIN ABU ISMAIL (REFTEL). IT IS QUOTED BELOW IN FULL.

2. QUOTE. MEMORANDUM
RE : DOUBLE TAXATION CONVENTION
 BETWEEN
 U.S.A. AND EGYPT

THE DRAFT DOUBLE TAXATION CONVENTION IS ACCEPTABLE TO THE EGYPTIAN SIDE.

MEANWHILE, IT IS NECESSARY TO CLARIFY THAT DIVIDENDS INCLUDING DISTRIBUTIONS ARE EXEMPT FROM TAX IN EGYPT AS LONG AS THEY ARE NOT SUBJECT TO TAXATION IN U.S. A. AS SOON AS THEY BECOME LIABLE TO TAX IN U.S.A., THEY SHALL ALSO BE TAXED IN EGYPT. THE AMERICAN INVESTOR CAN AVOID DOUBLE TAXATION BY DEDUCTING THE EGYPTIAN TAXES FROM THE AMERICAN TAXES ACCORDING TO THE CREDIT TAX SYSTEM IN U.S.A. AND THE PROVISIONS OF ARTICLE 25 OF THE CONVENTION.

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IT IS ALSO UNDERSTOOD

AT THE PHRASE (MOST
RECENTLY ACCUMULATED EARNINGS AND PROFITS) AT THE END
OF PARAGRAPH 8 OF ARTICLE 11 OF THE CNVENTION (P 32)
MEANS: THE ACCUMULATED EARNINGS AND PROFITS OF THE
MOST RECENT YEARS. SUCH DISTRIBUTIONS SHALL BE SUBJECT
TO TAX IN EGYPT AFTER THE END OF THE TAX EXEMPTION
PERIOD.

THEREFORE, WE PROPOSE TO ADD THE FOLLOWING PARAGRAPH
(10) AT THE END OF ARTICLE 11:

(10) DIVIDENDS INCLUDING DISTRIBUTIONS SHALL
BENEFIT FROM THE TAX EXEMPTION GRANTED IN EGYPT AS
LONG AS THEY ARE NOT SUBJECT TO TAXATION IN U.S.A.
WHENEVER SUCH DIVIDENDS BECOME LIABLE TO TAX IN
U.S.A., THEY SHALL BE TAXED IN EGYPT AND IN THIS CASE
THEY SHALL BE ENTITLED TO THE TAX CREDIT SYSTEM
ACCORDING TO ARTICLE 25 OF THE CONVENTION. END QUOTE.

7. WE WOULD APPRECIATE WASHINGTON'S VIEWS ON
ACCEPTABILITY OF PROPOSED MODIFICATION.
ABU ISMAIL HAS STILL NOT ADVISED US AS TO SIGNING/
INITIALLING PROCEDURES THAT GOE WISHES TO FOLLOW
DURING SADAT VISIT. RECEIPT OF INFO REQUESTED ABOVE
WILL PROVIDE OPPORTUNITY TO PURSUE THIS QUESTION.
MAESTRONE

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